

1	Introduction	1
	1.1 Background to this Book.	3
	1.2 Basis of Empirical Analysis.	4
	1.3 Summary of Findings.	4
2	Theoretical Formulation of the Value Model	7
	2.1 Axiom 1: Origin of Value.	9
	2.2 Axiom 2: Risk Discount Rate.	10
	2.3 Axiom 3: Dividends-Time Invariance.	10
	2.4 Axiom 4: Expectations-Time Invariance.	11
	2.5 Axiom 5: Indefinite company life.	11
	2.6 Axiom 6: Stable Corporate Tax.	12
	2.7 Axiom 7: Risk Pass Through	13
	2.8 Other axioms	13
3	A Review of the Risk Model's Implications	15
	3.1 Effect of corporate taxes, T	17
	3.2 Effect of dividend as a proportion of EAT, k	17
	3.3 Effect of investor's expectations, R	18
	3.4 Medium term effect of k	22
	3.5 Medium term effects of k & R	22
	3.6 Effect of T on k	23
	3.7 Various forms of the risk model	23
	3.8 Portfolio and market collapse	24
4	Information Filtering & Information Efficiency	33
	4.1 Definition of financial returns and its effect on financial information	35
	4.2 Short term filter effects	35
	4.3 Medium term filter effects	37
	4.4 Long term filter effects	39
	4.5 The empirical evidence	40
	4.6 Information efficiency of the market	41
	4.7 Size effects	43
	4.8 Price earnings ratio	44
	4.9 The Investment Horizon - Risk Plane	45

5	Market Segmentation and Industry Risk Clusters	51
5.1	Risk-Return Simulation Results : Approach	53
5.2	Risk-Return Simulation Results : Objectives	53
5.3	Risk-Return Simulation Results : Methodology	53
5.4	Risk-Return Simulation Results : Results	54
5.5	Inferences from the simulations results	54
5.6	Factors affecting the risk-return relationship	55
5.7	Effect upon portfolio returns	60
5.8	Definition of allocational efficiency for capital markets	62
6	Portfolio Risk Analysis	77
6.1	Some basic definitions	79
6.2	Portfolio definitions	79
6.3	Portfolio diversification mechanism	80
6.4	Implications of the portfolio diversification mechanisms	82
6.5	Portfolio diversification in the short term	83
6.6	Portfolio diversification in the medium or long term	86
6.7	Determining the various sources of risk in a portfolio	88
7	Portfolio Management	101
7.1	Some tools to evaluate the effectiveness of portfolio diversification	103
7.2	Efficient frontier	106
7.3	Issues in portfolio management	107
7.4	Minimizing the portfolio risk for a given portfolio return	107
7.5	Example portfolio minimization	113
7.6	Comparison of CAPM's β with the portfolio's ρ	114
7.7	Maximizing the portfolio return for a given portfolio risk	116
7.8	Example portfolio maximization	118
7.9	Issues in maintaining an existing portfolio	118
7.10	When should portfolios be re-balanced?	119
7.11	Example use of Statistical Process Control	122
7.12	When to trade the portfolio' securities	123

8	The Nature of Risk	155
8.1	Derivation of the Components of Unsystematic Risk	157
8.2	The Risk Profile	162
8.3	Expectation Risk	163
8.4	A Second Look at Heterogeneous Investors' Expectations	165
8.5	Mapping of Securities	168
8.6	A Universal Benchmark for Risk	169
8.7	Financial Cash Flow Risk	174
8.8	Available Cash Flow Risk	176
8.9	Cash Flow Risk Mapping of ΔFCF with ΔACF	179
8.10	Business Strategy Implementation Risk	180
8.11	Sustainable Cash Flow Growth	182
8.12	Earnings Risk	183
8.13	Empirical Evidence for Unsystematic Risk Driving Security Risk	187
8.14	A Risk Ranking Scheme	188
8.15	A Second Look at Efficient Market Hypothesis	188
8.16	Managing Risk - The Global Perspective	193
8.17	Application of Global Risk Management	195
9	Conclusion	231
10	Bibliography	235
11	Appendix: Literature Review	243
	Index	271